PENSION MANAGEMENT OVERSIGHT COMMISSION

Legislative Services Agency
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MEETING MINUTES[1]

Meeting Date:	**August 29, 2007**
Meeting Time:	**10:00 A.M.**
Meeting Place:	**State House, 200 W. Washington St., Room 431**
Meeting City:	**Indianapolis, Indiana**
Meeting Number:	**1**

Members Present: **Sen. Dennis Kruse, Chairperson; Sen. R. Michael Young; Sen. Karen Tallian; Sen. Robert Deig; Rep. David Niezgodski; Rep. Win Moses; Rep. Woody Burton; Rep. Lawrence Buell; Steve Meno; Kip White; Randall Novak; Matthew Buczolich.**

Members Absent: **None.**

Senator Dennis Kruse, Chairperson, called the first meeting of the Pension Management Oversight Commission (Commission) to order at 10:05 a.m. Members and staff of the Commission were introduced.

Commission Operating Policies and Assigned Study Topics

Staff briefly reviewed the Commission's operating policies and study topics assigned by the Legislative Council or legislation. Topics assigned to the Commission this interim

[1] Exhibits and other materials referenced in these minutes can be inspected and copied in the Legislative Information Center in Room 230 of the State House in Indianapolis, Indiana. Requests for copies may be mailed to the Legislative Information Center, Legislative Services Agency, 200 West Washington Street, Indianapolis, IN 46204-2789. A fee of $0.15 per page and mailing costs will be charged for copies. These minutes are also available on the Internet at the General Assembly homepage. The URL address of the General Assembly homepage is http://www.in.gov/legislative/. No fee is charged for viewing, downloading, or printing minutes from the Internet.

include the following:

(1) The benefit structure of the Indiana State Teachers' Retirement Fund (TRF), assigned by SEA 29 (P.L.201-2007, SECTION 3) and the Legislative Council.

(2) The structure of TRF, assigned by HEA 1067 (P.L.149-2007, SECTION 6).

(3) Several issues related to the Judges' Retirement System assigned by HEA 1480 (P.L.68-2007, SECTION 3), including:

(a) The implementation of a judges' defined contribution fund.

(b) Any inequities that exist between the benefits provided by the 1977 Judges' Retirement System (1977 System) and the 1985 Judges' Retirement System (1985 System).

(c) Identification of the ways in which the benefits provided by the 1977 System and the 1985 System may be aligned.

(d) Consideration of possible employer contribution rates by the State to a judges' defined contribution fund, including a review of employer contribution rates for a judges' defined contribution fund that are consistent with employer contribution rates made by the State to other public pension plans.

Indiana Public Employees' Retirement Fund (PERF)

Terren Magid, Executive Director, presented PERF's update for 2007 (Exhibit 1). Exhibit 1 includes PERF's update to the Commission, an update on the Legislators' Pilot Program, press announcements, PERF member retirement planning brochures developed by PERF, and PERF's 2006 Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006.

Mr. Magid reviewed PERF's mission statement and provided an overview of the plans administered by PERF. PERF administers six different plans with more than 220,000 members: PERF; the Judges' Retirement System; the Legislators' Retirement System; the 1977 Police Officers' and Firefighters' Pension and Disability Fund (1977 Fund); the State Excise Police, Gaming Agent, and Conservation Enforcement Officers' Retirement Fund; and the Prosecuting Attorneys' Retirement Fund. Approximately 40% of the active members of these plans are vested. Ninety-four percent of members are members of PERF. PERF's membership plus the membership of the 1977 Fund equals 99% of the members of the plans administered by PERF. Nearly 1,200 employers participate in the plans administered by PERF. The State of Indiana is the employer of 17% of the membership. Employers with more than 1,000 employees make up less than 1% of the employer-participants, and 50% of the employer-participants have fewer than 50 employees.

PERF's statement of net assets of the Consolidated Retirement Investment Fund (CRIF), which contains substantially all of the investments for the plans administered by PERF, shows a 17% increase in total net assets between June 30, 2006, and June 30, 2007. With the exception of Alternatives, the target and the actual allocations of CRIF are within 2007 policy ranges: Domestic Equities - 40% (target) and 48.1% (actual); International Equities - 15% (target) and 17.6 % (actual); Global Equities - 10% (target) and 10.6% (actual); Fixed Income - 20% (target) and 22.2% (actual); and Alternatives - 15% (target) and 1.6% (actual). Alternatives consists of four subaccounts: private equity, real estate, absolute return strategies (hedge funds), and commodities. CRIF's unaudited rate of return for FY2007 was 18.18%.

The actuarial funded status (ratio of assets to liabilities) and the amount of unfunded liabilities (in thousands of dollars) for the following plans are: PERF - 97.6% ($272,956.9); 1977 Fund - 97.2% ($67,067.0); Judges - 65.3% ($94,721.3); Excise, Gaming, and Conservation - 74.9% ($16,269.3); Prosecuting Attorneys - 68.7% ($9,130.4); and Legislators - 90.2% ($510.9). As a rule of thumb, a defined benefit retirement plan with an actuarial funding ratio of 80% or greater is considered healthy. In the past year, the Judges' Retirement System made the greatest improvement in its funding status. The graph of the five year history of actuarial assets and liabilities shows an increase in assets and liabilities in 2004, because of changes in the fund's actuarial assumptions.

Mr Magid next reviewed PERF's operations. PERF's June 2007 Scorecard indicates, for PERF's statewide initiatives, $1,792,000 in annual savings and efficiency gains, $473,000 in one-time savings and efficiency gains, and $764,000 in competitive sourcing participation. PERF's financial performance exceeded its target. PERF's one year actual return was 101% of the one year target return, and the net fund assets grew by 17%. PERF also met its customer service target: 100% of the retirees who followed PERF's retirement process began receiving a benefit within 30 days of retirement. PERF's customer satisfaction index and percentage of automated account transactions were within the target ranges.

PERF has increased member communications, especially for those members within five to ten years of retirement. In 2005, PERF developed a "bridge to retirement" program and has provided retirement workshops, counseling, online services, and written information to members nearing retirement.

Among last year's fundamental change initiatives, PERF improved its system of reporting service credit and completed its FY2006 Indiana State Board of Accounts audit earlier than in prior years. PERF received a clean audit opinion. In FY2008, PERF will work to improve the percentage of calls answered within 30 seconds, stabilize the current technology and develop a three to five year road map to replace its current technology, and expand its retirement planning efforts by helping active members determine whether they are ready to retire. PERF also expects to receive another clean financial opinion from the Indiana State Board of Accounts, make additional internal management improvements, and further implement Human Resources' performance management program.

Legislators' Defined Contribution Plan Pilot Program

Mr. Magid gave a brief report on the status of the Legislators' Defined Contribution Plan Pilot Program. The Pilot Program was initiated on January 1, 2004, using a third party administrator, and currently has approximately 200 participants. The investment choices include S&P 500, International, Small Cap, Money Market, and Bond Fund. The CRIF is the default option. No guaranteed option is available.

The Pilot Program allows participants to change investment choices as frequently as they desire. It also offers many online services, such as viewing accounts, initiating transactions, and updating information.

In 2006, PERF surveyed legislators to receive feedback on the Pilot Program. Eighty-eight percent of respondents liked the ability to change investment options at the frequency chosen by the respondent. Thirty-six percent of the respondents had visited the Program's web site, and of those who had visited the web site, 92% had accessed their account online. PERF also learned that the transition to a third party administrator requires PERF to set customer service levels and educate participants as to those levels, including how those levels differ from PERF's administration of the Program.

During the 2007 legislative session, the Pilot Program was extended until July 1, 2010. PERF has initiated a three to five year plan to resolve broader technology issues that include the operation of the Pilot Program, and currently is not prepared to recommend the extension of the Pilot Program to all PERF administered funds.

Senator Young asked why the expansion of the Pilot Program is taking so long. Mr. Magid responded that PERF's technology platform is the primary issue. PERF cannot hire a third party administrator to expand the Pilot Program, because PERF can not transition data as it presently exists for more than 220,000 accounts to a third party administrator.

Indiana State Teachers' Retirement Fund (TRF)

Cristy Wheeler, Executive Director, presented TRF's 2007 update (Exhibit 2). During FY2006, TRF experienced increases in the number of retired members and inactive members (members who are vested, but not yet eligible to receive a retirement benefit), while the number of active members remained flat at 73,350. Members and beneficiaries totaled 151,414. Annuity and pension payouts increased from $607,180,997 to $650,032,403. Total accrued liabilities also increased from $16,264,893,444 to $17,365,572,132. Currently, assets under management total $7,791,423,832. TRF has 352 employers, and processed 2,310 retirements during FY2006.

Investment returns for FY2007 exceeded TRF's target. The target was 17.51% total return, and the actual results were 18.17% total return. Callan's 100 public funds data base indicates that the top public fund performer last year had an investment return of 18.80% and the median return was 17.17%. With an investment return of 18.17%,TRF was a high performing investment manager in comparison with its peers. In addition, TRF's asset management costs were lower than its peers, 46.6 basis points versus 47.9 basis points, and its total adjusted administrative cost was also lower than its peers, $63 per member/retiree vs. $70 per member/retiree. TRF administers 3,016 active members/retirees/beneficiaries per full-time equivalent staff member versus a peer median of 1,616 members/retirees/beneficiaries per full-time equivalent staff member, making TRF a highly efficient operations unit.

TRF received a clean audit from the Indiana State Board of Accounts. The fund averaged 16 days to process the first 85% benefit check and delivered 95% of the final adjusted payment amounts within 60 days after the first check. Eighty-four percent of employers reported wage and hour contributions using TRF's web site rather than reporting manually. By the end of the year, TRF plans to use its web site to implement an automatic editing and feedback system.

TRF's customer service accomplishments included offering Saturday counseling for fund members, maintaining 24-hour scanning/online access to new records, and maintaining an average wait time in the call center of less than 30 seconds. Ninety-six percent of respondents to a retirement counseling survey gave TRF a rating in one of the top two categories. TRF also was able to implement new legislation concerning changes in beneficiary designation and reemployment after retirement on the legislation's effective date, July 1, 2007.

Membership in the 1996 Fund consists of all new teachers. The 1996 Fund is actuarially funded by employer contributions at a rate set by the TRF Board of Trustees. In FY2007, the employer contribution rate was 7% with a .5% cost of living adjustment (COLA) assumption. In FY2008, the contribution rate is 7.25% with a 1% COLA assumption. For FY2009, the contribution rate will be set early in 2008, but the COLA assumption will be 1.5%. TRF phased in the increased COLA assumption to avoid a big jump in the employer contribution rate.

The unfunded liability of the 1996 Fund decreased from $742,171,000 in FY2005 to $153,634,000 in FY2006, resulting in an increase in TRF's actuarially funded status from 63.1% to 93.5% during that period. The increase is the result of investment gains and a $715,000,000 one-time transfer from the Pension Stabilization Fund to the 1996 Fund to account for teachers who transferred membership from the Pre-1996 Fund to the 1996 Fund as the result of a change of employer.

The Pre-1996 Fund is closed to new members. It is a "pay as you go" plan funded each year by a state general fund appropriation of up to 106% of the prior FY appropriation, plus an amount from the Pension Stabilization Fund necessary to pay that year's benefits. The FY2007 appropriation is $590,000,000. The FY2007 amount from the Pension Stabilization Fund is $9,000,000. The Pension Stabilization Fund's FY2006 balance was $1,537,000,000, and the FY2007 balance is $1,880,000,000. The difference is attributable to $30,000,000 in contributions from the lottery, $322,000,000 in investment earnings, and a decrease of $9,000,000 used to pay benefits during FY2007.

Ms. Wheeler discussed a chart showing TRF and the Pension Stabilization Fund 50 year distribution projections for the pre-1996 Fund. In order to meet TRF's funding requirements, the General Assembly must appropriate 106% of its prior year appropriation every year until 2030.

Between FY2005 and FY2006, the unfunded liability of the Pre-1996 Fund increased from $8,457,422,000 to $9,525,249,000, and the actuarially funded status declined from 40.7% to 36.5%. The difference is attributable the one-time transfer from the Pension Stabilization Fund to the 1996 Fund discussed above, the increasing COLA assumption, and investment gains.

Commissioner White asked whether TRF has any investments at risk in the sub-prime mortgage market. Ms. Wheeler responded that TRF does not have any of that type of investment.

Judges' Retirement System Issues

Judge Thomas J. Felts, President of the Indiana Judges Association, made brief introductory remarks concerning the Judges' Retirement System. He thanked the General Assembly for enacting a COLA for the next two fiscal years for the 1985 System and for assigning Judges' Retirement System issues to the Commission for study this interim. He also thanked the Commission for considering the addition of full-time magistrates to the Judges' Retirement System. He introduced other judges and judicial center staff who accompanied him.

Benefit Differences between the 1977 System and the 1985 System

Staff summarized the benefits currently provided to participants, survivors, and beneficiaries by the 1977 System and the 1985 System and the differences between the two Systems (Exhibit 3). The two Systems have three differences in benefits. The first is the salary used to compute the benefits for participants, survivors, and beneficiaries. The salary used by the 1977 System is the annual salary **currently paid** for the office which the participant held at the time the participant separated from service. The salary used by the 1985 System is the annual salary **paid to the participant at separation** from service.

The second difference is the service that can be used to purchase service credit. Participants in the 1977 System may purchase creditable service for **prior or subsequent** service as a full-time referee, commissioner, or magistrate. Participants in the 1985 System may purchase creditable service **only for prior** service as a full-time referee, commissioner, or magistrate.

The third difference is the availability of post-retirement benefit increases. Benefits paid by the 1977 Fund increase whenever the salary of the position that the participant held at separation from service increases. Benefit increases for the 1985 System occur only when the General Assembly enacts an ad hoc COLA.

Fiscal Analysis of the Costs of: (1) Aligning the Benefits of the 1977 System and the 1985 System; and (2) Adding Full-time Magistrates as Members of the Judges' Retirement System

Doug Todd, Senior Actuary, McCready and Keene, Inc., presented a letter, dated August 29, 2007, to Terren Magid, Executive Director of PERF, summarizing the fiscal impacts of several proposed changes to the Judges' Retirement System (Exhibit 4).

One change is the addition of full-time magistrates as members of the 1985 System. The analysis assumes that service credit in the Judges' Retirement System is granted for the magistrates' prior service in PERF, and that PERF and the magistrates contribute the amount necessary to amortize the prior service liability.

The second change is aligning the benefits of the 1977 System and the 1985 System. The analysis assumes that benefits payable by the 1985 System will increase under the same conditions and in the same amount as benefits are increased for the 1977 System. The analysis further assumes that the increases will be prospective and not include existing retirees.

These assumptions are based on legislation proposed in prior sessions. The analysis does not take into account the COLAs enacted in 2007 by the General Assembly. Those COLAs apply only to the 1985 System.

The estimated fiscal impact of the changes, if the Judges' Retirement System was actuarially prefunded, would be:

	Magistrates	Alignment	Both
Increase in unfunded actuarial liability	$6,340,000	$34,220,000	$44,280,000
Increase in annual fund by employer	$1,750,000	$ 5,040,000	$ 7,510,000
Decrease in funded status	From 65.3% to 62.4%	From 65.3% to 56.4%	From 65.3% to 55.2%

Because the Judges' Retirement System is not actuarially prefunded and instead is funded on a "pay-as-you-go" basis, Mr. Todd also computed the estimated increases in the recommended annual contributions for the next five years for each change separately and then for both changes:

Fiscal Year	Increase in Recommended Annual Contributions		
	Magistrates	Alignment	Both
2007-2008	$288,000	$205,000	$508,000
2008-2009	305,000	217,000	538,000
2009-2010	324,000	231,000	570,000
2010-2011	343,000	244,000	605,000
2011-2012	363,000	259,000	641,000
Total	$1,623,000	$1,156,000	$2,862,000

In addition to the increases shown above, the State would contribute approximately $883,000 each year for ten years to amortize the increase in the unfunded liability created by the magistrates' past service.

Senator Young asked why the recommended annual contribution increases by roughly $20,000 each year. Mr Todd responded that the increases are the result of assumed salary increases.

Senator Young asked Mr. Todd to prepare a comparison showing the average magistrate's current benefit from PERF and the average magistrate's benefit if the magistrates were members of the 1985 System whose benefits were aligned with the 1977 System.

Senator Tallian asked Mr. Todd to compare judicial salary increases versus 1985 System COLA increases since 1985. Senator Kruse opined that he suspects that judges' salaries have increased about 100% between 1985 and the present. Judge Felts agreed that Senator Kruse's suspicions are roughly true.

Fiscal Analysis of the Fee Increase Necessary to Fund the Addition of Full-Time Magistrates as Members of the Judges' Retirement System

Mark Goodpaster, Senior Fiscal Analyst, Indiana Legislative Services Agency, presented his estimate of the fee increase needed to fund the addition of full-time magistrates as members of the Judges' Retirement System (Exhibit 5). The analysis assumes that a magistrate's salary remains 80% of a trial court judge's salary and that salaries of judicial officers will be adjusted each year by the amount that executive staff in the same salary bracket are paid.

In preparing his analysis, Mr. Goodpaster used the increases in recommended annual contributions, as computed by Mr. Todd, attributable to adding magistrates to the Judges' Retirement System. Based on trends observed between 2002 and 2005, Mr. Goodpaster further estimated that each one dollar increase in court fees will generate roughly $1 million in additional revenue. Using these assumptions, Mr. Goodpaster determined that a fifty cent increase in fees would generate approximately $500,000, which would adequately fund the addition of full-time magistrates to the Judges' Retirement System using the "pay-as-you-go" approach.

Representative Moses asked what the current court costs are for traffic tickets, civil cases, and criminal cases. Judge Robin Moberly responded that the amount of a traffic ticket depends upon the county. In Marion County, the ticket is $122.50. Judge Thomas Felts said that in Allen County a traffic ticket is $100. Senator Tallian added that the cost of a traffic ticket in Lake County is $90 to $100, and the civil court filing fee is $140.

Senator Young asked that Mr. Goodpaster prepare information showing the increases in court fees over the last five years and what the fees are used for.

Commissioner White said that in Fountain County the court fee for a civil case is $120 and for a probate case is $150. He noted that court fees have been going up surprisingly quickly.

Mr. Goodpaster added that in 1987 or 1988, court fees were consolidated into one fee making fee comparisons before and after that date difficult. Senator Kruse asked Mr. Goodpaster to track fee increases only after the fees were consolidated in 1988 and to determine the fee increase necessary to fund the alignment of the benefits of the 1977 System and the 1985 System.

Overview of Magistrates in Indiana

Jane Seigel, Executive Director, Indiana Judicial Center, provided a history and overview of magistrates in Indiana. Before 1977, counties paid for any judicial assistance given. In 1977, master commissioners were established in a couple of counties and their compensation was paid by the State. In 1984, juvenile court judges in counties having a population of at least 50,000 were authorized to appoint full-time juvenile court referees. While the juvenile court judge can appoint new referees, the number was somewhat limited because the referee's compensation is partly paid by the State and partly paid by the county.

In 1989, the positions of referee and commissioner were consolidated into the position of magistrate. The number of magistrates has increased because they are incredibly helpful and provide flexibility in handling case loads without the space concerns and staff costs incurred when a new judge is authorized.

Ms. Seigel handed out and discussed the 2007 Magistrates in Indiana Fact Sheet (Exhibit 6). Magistrates are full-time judicial officers and are not permitted to engage in the practice of law while holding office. The magistrate's powers are identical to the powers of a judge, except that a magistrate may not issue a judicial mandate or a final, appealable order. A magistrate who is appointed to serve as a judge pro tempore or a special judge does have complete judicial powers during the period of appointment. A magistrate's salary is 80% of a judge's salary, and the State pays the magistrate's salary. The number of magistrates has increased: 49 in 1997; 66 in 2002; and 80 in 2007. Ms. Seigel can supply a copy of the Appointed Judicial Officer Deskbook to any Commission member who would like one.

Senator Young asked whether there has been any difficulty finding people to fill magistrate positions. Ms. Seigel does not know of any difficulties, but would emphasize that magistrates are in fact full-time judicial officers.

Representative Burton asked Ms. Seigel to report on the increases in the number of judicial officers and court case loads since 1997. Representative Moses asked who is the best person to make this report. He is aware that the Chief Justice has provided some of these numbers in reports to the General Assembly. Ms. Seigel agreed to provide as much information as she can locate about these topics.

Senator Tallian asked how magistrates are appointed. Ms. Seigel responded that a magistrate is appointed by a judge or a group of judges and serves at the pleasure of the appointing officer. Magistrates do not have terms of office.

Representative Niezgodski requested that Ms. Seigel's report on the courts' increased case load include the average number of hours per case. Ms. Seigel agreed that the weighted case load methodology would be part of her report.

Additional Suggested Study Topics

Commissioner Meno asked that the Commission consider the Retired Indiana Public Employees' Association proposal from last year concerning several changes to PERF.

Jim Sperlik, Fiscal Analyst for the Commission, pointed out that an analysis of public employee pension benefits nationwide was prepared and presented to the Commission last year by the Legislative Services Agency. The report is currently available on the General Assembly's web site under the Publications tab.

Tom Hanify, President of the Professional Firefighters Union of Indiana, asked the Commission to consider several issues raised by the 1977 Fund Advisory Committee, including the determination of disability pensions, hiring mental exams, the duties and operation of local pension boards, a review of pre-1990 disability pensions granted under the 1977 Fund structure and the taxability of those pensions, and the possible transfer of all or a portion of the remaining 1977 Fund convertees to the 1977 Fund.

Steve Buschmann, representing the Indiana State Police Alliance, asked the Commission to consider two issues. The first is a technical correction to the computation of the supplemental benefit provided to members of the State Police Pre-1987 Benefit System. The second is the cost and feasibility of transferring the State Police Motor Carrier Inspectors, the Capitol Police, and the State Police Dispatchers from civilian PERF to the State Excise Police, Gaming Agent, and Conservation Enforcement Officers' Retirement Fund.

Ralph Ayres, Executive Director of the Indiana Retired Teachers' Association, described four topics for the Commission's consideration:

(1) A change to the beneficiary language contained in HEA 1067 (enacted during the 2007 session) to define divorce, for purposes of allowing changes in TRF beneficiary designations, as all legally granted divorces, not just those granted in Indiana.

(2) A reduction from 90 days to 30 days in the waiting period for reemployment in a TRF covered position after retirement from a TRF position.

(3) The award of creditable service in TRF for all military service, regardless of when the TRF member served. The request includes a study of the fiscal impact and the number of TRF members who would benefit from this change.

(4) A 2009 cost of living adjustment for TRF members, survivors, and beneficiaries.

The Chair requested that Philip Conklin of the Retired Indiana Public Employees Association and Mr. Ayres present their proposals during the Commission's next meeting.

Additional Commission Meeting Dates

After discussion by Commission members, the Chair announced that the Commission's second meeting will be scheduled on Wednesday, September 12, 2007, at 1:00 p.m. and the Commission's third meeting will be scheduled on Wednesday, October 17, 2007, at 1:00 p.m.

The Chair adjourned the meeting at 12:15 p.m.